

ELECTRONIC PAYMENTS FOR DRIVER'S LICENSING TRANSACTIONS REVIEW

A report to the Iowa Legislature, per House File 2196,
82nd General Assembly

Prepared by
Iowa Department of Transportation

December 31, 2008

I. INTRODUCTION

House File 2196 required the Department of Transportation (DOT) to study the acceptance of electronic payments at its customer service sites and sites operated by county treasurers. Specifically the legislation requires the following:

“The department of transportation shall review the current methods the department employs for the collection of fees and other revenues at sites operated by county treasurers under chapter 321M and at customer service sites operated by the department. In conducting its review, the department, in cooperation with the treasurer of state, shall consider providing an electronic payment option for all of its customers. The department shall report its findings and recommendations by December 31, 2008, to the senate and house standing committees on transportation regarding the advantages and disadvantages of implementing one or more electronic payment systems.”

II. STUDY OVERVIEW

This review focused on estimating the costs of providing an electronic payment option for customers of the DOT driver's license stations and those of the 81 county treasurers. Customers at these sites engage in three primary financial transactions for which acceptance of electronic payments was studied: paying for a driver's license (DL), paying for a non-operator identification card (ID), and paying certain civil penalties.

Both consumer credit cards and PIN-based debit cards were reviewed as electronic payment options. It was assumed that most transactions would be made using a consumer credit card. Credit card companies charge a fee for each transaction for which they are used. The amount of these fees varies among credit card companies. The estimates for credit card fees used in this study were based on the State Treasurer of Iowa's current credit card contract, which is due to expire in September 2009. Since credit card companies adjust their fees each year, estimates were based on the 2008 fee schedule. There is also a fee for the use of PIN-based debit cards. The estimates for PIN-based debit card transactions were based on information provided by Wells Fargo Merchant Services for current fees charged by debit card networks.

Credit and debit card transactions would be processed through vendor-provided hardware and software. The costs would be determined through the competitive bidding process since several vendors provide this function; therefore, these costs are not reflected in this document.

III. CURRENT PAYMENT PROCESS

Customers normally purchase a DL or ID every five years. Customers currently pay for their DL or ID by cash or check. There is a low occurrence of returned checks. In those rare instances where the customer's check is returned as "nonsufficient funds," the DOT sends a letter giving the customer the opportunity to remedy the situation before the DL is cancelled. Attachment A lists the number of these returned checks for 2000 through 2008 and includes data from both the state and county locations. Civil penalties are paid in cash, money order or cashier's check. All funds are reconciled daily through an automated software program which requires cash and checks on hand match the amounts recorded in the system; funds are deposited at the end of each business day. The Auditor of State performs random audits of these transactions.

IV. CREDIT CARDS/PIN-BASED DEBIT CARDS

A. Allowable methods of covering credit card/PIN-based debit card transaction fees

The major credit card companies (VISA, MasterCard and Discover) will, under certain circumstances, allow customers paying fees by credit card to be charged a “convenience fee” to offset the cost of accepting credit cards. Generally, charging a convenience fee is allowed when a customer pays through an “alternative payment channel,” such as on a website or at an offsite kiosk. Discover and MasterCard currently allow agencies to collect a convenience fee from customers paying in a face-to-face situation, such as at a state or county DL station. However, VISA, which has approximately 60 percent market penetration, does not allow customers to be charged a convenience fee when paying in the same situation.

B. Estimated cost of using credit and debit cards

The DOT and State Treasurer’s staff estimated the cost of accepting credit and debit cards for DLs and IDs using several scenarios. Scenarios differ depending on types of cards accepted and percentage usage of each card type. The data related to these scenarios is provided in Attachment B. Payments for civil penalties are also accepted at state and county sites. The DOT and State Treasurer’s staff estimated the cost of accepting credit and debit cards for the payment of civil penalties using several scenarios and this data is reported in Attachment C.

The credit card fee estimates provided do NOT include the following costs:

1. The cost of purchasing the hardware and software used to process the credit/debit card transactions since it would be based upon the price charged by the contractor providing the service; the contract award would be made through a competitive bidding process as there are several vendors providing this service.
2. The cost of DOT staff time to install the terminals and software.
3. The training of DOT and county DL staff to use the new terminals and software.

C. Options for covering the additional cost of using credit cards and PIN-based debit cards

Options for funding an electronic payment at the state and county driver's license stations are as follows:

- Accept MasterCard and Discover and do not accept VISA. Charge MasterCard and Discover card users a convenience fee to cover the transaction charges.
- Accept Master Card, Discover and VISA. Provide an appropriation from the Road Use Tax Fund (RUTF) to pay the transaction costs of the electronic payments for all customers who pay with a MasterCard, Discover or VISA credit or debit card.
- Accept MasterCard, Discover and VISA and increase the cost in Iowa Code of all DLs/IDs to cover the transaction fees charged by credit card companies. Provide an appropriation from the Road Use Tax Fund (RUTF) to pay the transaction costs of the electronic payments for all customers who pay with a MasterCard, Discover or VISA credit or debit card.

V. ADVANTAGES AND DISADVANTAGES OF IMPLEMENTING ELECTRONIC PAYMENT SYSTEMS

A. Advantages

- Customer convenience.
- Reduction in time spent by DL station staff handling cash/checks.
- Reduced trips to the bank.

B. Disadvantages

- Increased cost of covering card transaction fees estimated to range from \$249,318 to \$434,394 annually for DL/IDs and civil penalties.
- If transaction fees are not recovered from customers through a convenience fee, the RUTF will lose revenue estimated at \$249,318 to \$434,394 annually.
- Costs (amount unknown) of vendor-provided hardware and software used to process the transactions.
- Staff time and costs to program the software interfaces between the credit card transaction units and the DL/ID issuance system.
- Staff costs and time for training for state and county DL staff.

VI. FINDINGS AND RECOMMENDATIONS

A. Findings

- There are three primary types of transactions conducted by customers of state and county DL stations: purchasing a DL, purchasing an ID and/or paying a civil penalty.
- Credit card companies charge a fee for the use of their card and there are additional fees which must be paid to the vendor providing the hardware and software used to process the transactions.
- MasterCard and Discover allow the customer transacting business “face-to-face” to be charged a convenience fee to cover the costs. VISA, which has a market penetration of 60%, does not allow this fee to be charged to the customer in this situation.
- Providing customers the option of electronic payments for DL/IDs and certain civil penalties is estimated to cost between \$249,318 to \$434,394 annually in addition to the costs charged by the vendor of hardware and software
- Increasing the fees for all DLs and IDs to cover the costs of allowing the use of credit and debit cards requires individuals to help defray the cost of a service they did not use.
- Not charging customers a fee to cover the transaction fees reduces revenue to the RUTF that is available to the state, counties and cities for road improvements.

B. Recommendations

1. Implement the acceptance of MasterCard and Discover credit cards and MasterCard and Discover debit cards at state and county DL stations effective January 2, 2010.
2. Change Iowa Code to allow for a convenience fee to be assessed to customers who wish to use a MasterCard or Discover card to pay for their DL, ID or civil penalties.
3. Annually appropriate from the RUTF to the DOT sufficient funds to cover the costs of accepting credit and debit cards at state and county DL stations.

Attachment A
Total Number of Nonsufficient Funds Checks Received at State and County DL Stations

	2000	2001	2002	2003	2004	2005	2006	2007	2008 (Jan-Nov)
Returned Checks (routed for a cancellation)	488	666	482	869	686	539	431	439	428
(Source: Indexing Report)									
Total Licenses Issued	1,105,304	942,739	938,438	1,114,881	1,119,693	916,184	782,539	842,584	917,665
(Source: 525 Report)									
Percentage of Returned Checks Compared to Issuance	0.044%	0.071%	0.051%	0.078%	0.061%	0.059%	0.055%	0.052%	0.047%

Attachment B
Estimated Cost of Credit/Debit Cards for face-to-face DL/ID transactions

Assumption: 60% of business will be credit/debit card transactions 60% VISA, 40% MasterCard, 0% Discover, 0% PIN-based debit card																				
Drivers License Activity August - October 2008				Estimated cost per transaction/per product ¹								Percentage of transactions used with a debit/credit card	Cost for all transactions by card type							Estimated 3-month Total
													50%	30%	0%	12%	8%	0%	0%	
Product	Number of Items	Total Revenue for each Item	Average transaction for each item	VISA consumer card	MC consumer card	Discover consumer card	VISA debit (offline)	MC debit (offline)	Discover debit (offline)	PIN-based debit	60%	VISA consumer card	MC consumer card	Discover consumer card	VISA debit (offline)	MC debit (offline)	Discover debit (offline)	PIN-based debit		
CDL A	12,366	\$ 437,052	\$ 35.34	\$ 0.68	\$ 0.77	\$ 0.75	\$ 0.65	\$ 0.65	\$ 0.64	\$ 0.67	7,420	\$ 2,523	\$ 1,714	\$ -	\$ 579	\$ 386	\$ -	\$ -	\$ 5,201	
CDL B	5,671	\$ 193,080	\$ 34.05	\$ 0.65	\$ 0.75	\$ 0.73	\$ 0.64	\$ 0.64	\$ 0.62	\$ 0.66	3,403	\$ 1,106	\$ 766	\$ -	\$ 261	\$ 174	\$ -	\$ -	\$ 2,307	
CDL C	523	\$ 16,668	\$ 31.87	\$ 0.61	\$ 0.70	\$ 0.69	\$ 0.61	\$ 0.61	\$ 0.60	\$ 0.64	314	\$ 96	\$ 66	\$ -	\$ 23	\$ 15	\$ -	\$ -	\$ 200	
CDL Instruction Permit	1,882	\$ 22,536	\$ 11.97	\$ 0.26	\$ 0.33	\$ 0.32	\$ 0.39	\$ 0.39	\$ 0.35	\$ 0.49	1,129	\$ 147	\$ 112	\$ -	\$ 53	\$ 35	\$ -	\$ -	\$ 347	
Chauffeur 1	940	\$ 29,052	\$ 30.91	\$ 0.60	\$ 0.69	\$ 0.67	\$ 0.60	\$ 0.60	\$ 0.58	\$ 0.63	564	\$ 169	\$ 117	\$ -	\$ 41	\$ 27	\$ -	\$ -	\$ 354	
Chauffeur 2	3,627	\$ 127,796	\$ 35.23	\$ 0.67	\$ 0.77	\$ 0.75	\$ 0.65	\$ 0.65	\$ 0.64	\$ 0.66	2,176	\$ 729	\$ 503	\$ -	\$ 170	\$ 113	\$ -	\$ -	\$ 1,515	
Chauffeur 3	2,943	\$ 95,420	\$ 32.42	\$ 0.62	\$ 0.71	\$ 0.70	\$ 0.62	\$ 0.62	\$ 0.60	\$ 0.64	1,766	\$ 547	\$ 376	\$ -	\$ 131	\$ 88	\$ -	\$ -	\$ 1,142	
Chauffeur IP	58	\$ 696	\$ 12.00	\$ 0.26	\$ 0.33	\$ 0.32	\$ 0.39	\$ 0.39	\$ 0.35	\$ 0.49	35	\$ 5	\$ 3	\$ -	\$ 2	\$ 1	\$ -	\$ -	\$ 11	
Double Triple Endorsement	330	\$ 1,610	\$ 4.88	\$ 0.14	\$ 0.19	\$ 0.19	\$ 0.31	\$ 0.31	\$ 0.26	\$ 0.44	198	\$ 14	\$ 11	\$ 11	\$ 7	\$ 5	\$ -	\$ -	\$ 49	
Duplicate - Defective Barcode	173	\$ -	\$ -																	
Duplicate - Defective Card Stock	3,180	\$ -	\$ -																	
Duplicate - Defective Laminate	190	\$ -	\$ -																	
Duplicate - Defective Mag Stripe	98	\$ -	\$ -																	
Duplicate - Dept. Re-issue	5,135	\$ 74	\$ 0.01																	
Duplicate - Destroyed	298	\$ 888	\$ 3.00	\$ 0.10	\$ 0.16	\$ 0.16	\$ 0.28	\$ 0.28	\$ 0.24	\$ 0.42	179	\$ 9	\$ 9	\$ -	\$ 6	\$ 4	\$ -	\$ -	\$ 28	
Duplicate - Misplaced	18,471	\$ 55,380	\$ 3.00	\$ 0.10	\$ 0.16	\$ 0.16	\$ 0.28	\$ 0.28	\$ 0.24	\$ 0.42	11,083	\$ 554	\$ 532	\$ -	\$ 372	\$ 248	\$ -	\$ -	\$ 1,707	
Duplicate - Stolen	2,619	\$ 7,857	\$ 3.00	\$ 0.10	\$ 0.16	\$ 0.16	\$ 0.28	\$ 0.28	\$ 0.24	\$ 0.42	1,571	\$ 79	\$ 75	\$ -	\$ 53	\$ 35	\$ -	\$ -	\$ 242	
Duplicate - Unreadable Data	13	\$ -	\$ -																	
Duplicate - Voluntary Replacement	44,491	\$ 44,730	\$ 1.00	\$ 0.07	\$ 0.12	\$ 0.12	\$ 0.26	\$ 0.26	\$ 0.21	\$ 0.41	26,695	\$ 934	\$ 961	\$ -	\$ 833	\$ 555	\$ -	\$ -	\$ 3,283	
Hazmat Endorsement	950	\$ 4,745	\$ 5.00	\$ 0.14	\$ 0.19	\$ 0.19	\$ 0.31	\$ 0.31	\$ 0.26	\$ 0.44	570	\$ 40	\$ 32	\$ -	\$ 21	\$ 14	\$ -	\$ -	\$ 108	
Intermediate	8,284	\$ 66,178	\$ 8.00	\$ 0.19	\$ 0.25	\$ 0.25	\$ 0.34	\$ 0.34	\$ 0.30	\$ 0.46	4,970	\$ 472	\$ 373	\$ -	\$ 203	\$ 135	\$ -	\$ -	\$ 1,183	
Lift Airbrake Restriction	2,731	\$ 26,280	\$ 9.62	\$ 0.22	\$ 0.28	\$ 0.28	\$ 0.36	\$ 0.36	\$ 0.32	\$ 0.47	1,639	\$ 180	\$ 138	\$ -	\$ 71	\$ 47	\$ -	\$ -	\$ 436	
Minor's School License	4,776	\$ 38,165	\$ 8.00	\$ 0.19	\$ 0.25	\$ 0.25	\$ 0.34	\$ 0.34	\$ 0.30	\$ 0.46	2,866	\$ 272	\$ 215	\$ -	\$ 117	\$ 78	\$ -	\$ -	\$ 682	
Moped	499	\$ 3,904	\$ 8.00	\$ 0.19	\$ 0.25	\$ 0.24	\$ 0.34	\$ 0.34	\$ 0.30	\$ 0.46	299	\$ 28	\$ 22	\$ -	\$ 12	\$ 8	\$ -	\$ -	\$ 71	
Motorcycle Endorsement	26,332	\$ 242,309	\$ 9.20	\$ 0.21	\$ 0.27	\$ 0.27	\$ 0.36	\$ 0.36	\$ 0.31	\$ 0.47	15,799	\$ 1,659	\$ 1,280	\$ -	\$ 683	\$ 455	\$ -	\$ -	\$ 4,076	
Motorcycle IP	1,626	\$ 12,898	\$ 7.93	\$ 0.19	\$ 0.25	\$ 0.25	\$ 0.34	\$ 0.34	\$ 0.30	\$ 0.46	976	\$ 93	\$ 73	\$ -	\$ 40	\$ 27	\$ -	\$ -	\$ 232	
Non Resident CDL A	10	\$ 100	\$ 10.00	\$ 0.23	\$ 0.29	\$ 0.28	\$ 0.36	\$ 0.36	\$ 0.32	\$ 0.48	6	\$ 1	\$ 1	\$ -	\$ 0	\$ 0	\$ -	\$ -	\$ 2	
Non Resident CDL B	1,796	\$ 8,606	\$ 4.79	\$ 0.13	\$ 0.19	\$ 0.19	\$ 0.30	\$ 0.30	\$ 0.26	\$ 0.44	1,078	\$ 70	\$ 61	\$ -	\$ 39	\$ 26	\$ -	\$ -	\$ 196	
Non-Operator ID	14,197	\$ 67,521	\$ 4.76	\$ 0.13	\$ 0.19	\$ 0.19	\$ 0.30	\$ 0.30	\$ 0.26	\$ 0.44	8,518	\$ 554	\$ 486	\$ -	\$ 307	\$ 204	\$ -	\$ -	\$ 1,550	
Operator's IP	29,607	\$ 399,275	\$ 13.49	\$ 0.29	\$ 0.36	\$ 0.35	\$ 0.40	\$ 0.40	\$ 0.37	\$ 0.50	17,764	\$ 2,576	\$ 1,919	\$ -	\$ 853	\$ 568	\$ -	\$ -	\$ 5,915	
Operators License	158,709	\$ 2,734,424	\$ 17.23	\$ 0.36	\$ 0.43	\$ 0.42	\$ 0.45	\$ 0.45	\$ 0.41	\$ 0.53	95,225	\$ 17,141	\$ 12,284	\$ -	\$ 5,142	\$ 3,428	\$ -	\$ -	\$ 37,995	
Passenger Endorsement	597	\$ 5,841	\$ 9.78	\$ 0.22	\$ 0.29	\$ 0.28	\$ 0.36	\$ 0.36	\$ 0.32	\$ 0.47	358	\$ 39	\$ 31	\$ -	\$ 15	\$ 10	\$ -	\$ -	\$ 96	
Reinstatement Fee	10,243	\$ 198,765	\$ 19.40	\$ 0.39	\$ 0.47	\$ 0.46	\$ 0.47	\$ 0.47	\$ 0.44	\$ 0.55	6,146	\$ 1,198	\$ 867	\$ -	\$ 347	\$ 231	\$ -	\$ -	\$ 2,643	
School Bus Endorsement	412	\$ 3,690	\$ 8.96	\$ 0.21	\$ 0.27	\$ 0.27	\$ 0.35	\$ 0.35	\$ 0.31	\$ 0.47	247	\$ 26	\$ 20	\$ -	\$ 10	\$ 7	\$ -	\$ -	\$ 63	
Tank Endorsement	786	\$ 3,805	\$ 4.84	\$ 0.14	\$ 0.19	\$ 0.19	\$ 0.31	\$ 0.31	\$ 0.26	\$ 0.44	472	\$ 33	\$ 27	\$ -	\$ 18	\$ 12	\$ -	\$ -	\$ 89	
Motorcycle Only	8	\$ 84	\$ 10.50	\$ 0.24	\$ 0.30	\$ 0.29	\$ 0.37	\$ 0.37	\$ 0.33	\$ 0.48	5	\$ 1	\$ 0	\$ -	\$ 0	\$ 0	\$ -	\$ -	\$ 1	
¹ The fee for credit/debit card transactions is an estimate. Fees vary depending on the type of credit card the customer uses. For example, a corporate card or a rewards card normally has a higher fee associated with it. Also, VISA/MC/Discover publish a new rate schedule annually, so fees often change from year to year.															Estimated cost for 3 months:				\$ 71,724	
															Estimated cost for one year:				\$ 286,896	

Attachment C
Estimated Cost of Credit/Debit Cards for face-to-face civil penalty collections

A. For credit cards and "offline" debit cards (non-pin), there are three components to the charge per transaction:

- 1) MasterCard assessment (or) 0.095% (9 1/2 bp)
- VISA assessment (or) 0.0925% (9.25 bp)
- Discover assessment 0.0925% (9.25 bp)
- 2) Wells Fargo fee (acquiring bank) 0.25% (25 bp)
- 3) Interchange Rates Vary. Set annually by credit card associations *.

The interchange rate on a particular transaction depends on several factors:

- company that issued the card (MC, VISA, or Discover)
- whether debit or credit card
- type of credit card (consumer, foreign, corporate, purchasing, rewards, signature, etc.)
- how soon transaction is settled after authorization

VISA card interchange fees range from 1.43% plus \$.05 per transaction to 2.7% plus \$.10

MasterCard interchange fees range from 1.55% plus \$.10 to 2.95% plus \$.10

Discover interchange fees range from 1.45% plus \$.05 to 2.85% plus \$.10

Offline debit card interchange fees range from .80% plus \$.25 per transaction to 1.85% plus \$.25

*Interchange rate for typical consumer credit card (**the minimum rate; rates could easily be higher**):

VISA = 1.43% + \$.05

MC = 1.55% + \$.10

Discover = 1.50% + \$.10

Interchange rate for off-line debit card: VISA = .80% + \$.25
 MC = .80% + \$.25
 Discover = .90% + \$.20

B. PIN-based debit card fees (normally three components per transaction fee)

- 1) Wells Fargo fee: 0.16 estimate only
- 2) Debit network fees:
 - a) interchange: \$.19-\$.65 (Shazam, the local network, charges .75% plus \$.20, capped at \$.65; \$.65 maximum is reached at \$60)
 - b) switch: 0.04

Total ranges from \$.39 to \$.85 per transaction

<u>Fees on following sales amounts:</u>	<u>\$50.00</u>	<u>%</u>	<u>\$100.00</u>	<u>%</u>	<u>\$200.00</u>	<u>%</u>	<u>\$400.00</u>	<u>%</u>	<u>\$600.00</u>	<u>%</u>	<u>\$800.00</u>	<u>%</u>	<u>\$1,000.00</u>	<u>%</u>
VISA consumer card	\$0.94	1.87%	\$1.82	1.82%	\$3.60	1.80%	\$7.14	1.79%	\$10.69	1.78%	\$14.23	1.78%	\$17.78	1.78%
MC consumer card	\$1.05	2.10%	\$2.00	2.00%	\$3.89	1.95%	\$7.68	1.92%	\$11.47	1.91%	\$15.26	1.91%	\$19.05	1.91%
Discover consumer card	\$1.02	2.04%	\$1.94	1.94%	\$3.79	1.89%	\$7.47	1.87%	\$11.16	1.86%	\$14.84	1.86%	\$18.53	1.85%
VISA debit (offline)	\$0.82	1.64%	\$1.39	1.39%	\$2.54	1.27%	\$4.82	1.21%	\$7.11	1.18%	\$9.39	1.17%	\$11.68	1.17%
MC debit (offline)	\$0.82	1.65%	\$1.40	1.40%	\$2.54	1.27%	\$4.83	1.21%	\$7.12	1.19%	\$9.41	1.18%	\$11.70	1.17%
Discover debit (offline)	\$0.82	1.64%	\$1.44	1.44%	\$2.69	1.34%	\$5.17	1.29%	\$7.66	1.28%	\$10.14	1.27%	\$12.63	1.26%
PIN-based debit	\$0.78	1.55%	\$0.85	0.85%	\$0.85	0.43%	\$0.85	0.21%	\$0.85	0.14%	\$0.85	0.11%	\$0.85	0.09%

Source: State Treasurer's Office